

Exhibit Q



Macy's Loses Sales as It Weans Shoppers From Coupons (Update5)

By Cotten Timberlake



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May 16 (Bloomberg) -- Federated Department Stores Inc. is trying to break its shoppers' addiction to clipping coupons in order to boost earnings. In the process, it's losing customers once loyal to the Marshall Field's, Filene's and Hecht's stores it bought in 2005.

Federated's aim is to transform shopping habits by getting consumers hooked on consistent prices instead. The second-largest department-store chain, which plans to change its name to Macy's Inc. in June, may fail as companies such as Dillard's Inc. have had little success after shoppers resisted such changes.

The strategy is risky for Federated and its investors because coupons can be "tough drugs to come off," Charles Grom, a New York-based analyst with J.P. Morgan Securities Inc., wrote April 30. He has a "neutral" rating on the stock.

Federated today reported a first-quarter profit of \$36 million, or 8 cents a share, on lower costs to integrate the acquired stores, now called Macy's. Sales fell 0.2 percent to \$5.92 billion in the three months ended May 5.

Excluding one-time costs for integrating the May stores, Federated said it had a profit of 16 cents a share, trailing the average analyst estimate of 19 cents in a Bloomberg News survey.

Shares of Federated slipped 29 cents to \$39.65 as of 4:03 p.m. in New York Stock Exchange composite trading. They have declined 8.5 percent since Feb. 27 when the company's annual profit prediction trailed analysts' estimates. The Standard & Poor's 500 Index gained 8.2 percent over that time.

\$11 Billion Acquisition

Since paying \$11 billion for May Department Stores Co., Federated has toned down promotions, added more expensive merchandise like Coach handbags, and sold more exclusive goods from designers like Oscar de La Renta and private-label brands under names like Alfani.

Federated, which doubled the number of Macy's to more than 800 with the May stores, has also been sprucing up its locations by reducing clutter, improving dressing-room areas and adding televisions to them, and providing better signs in the stores.

The goal is to boost revenue, and ultimately Federated's stock price, said spokesman Jim Sluzewski. The decision to cut the number of days coupons can be redeemed has hurt sales.

"May is going to take a longer time to turn around, partly because of the coupons," said Arun Daniel, an analyst at ING Investments LLC in New York, which manages \$40 billion. Federated's earnings could come down, and that would be bad for the stock," he added.

ING funds reduced their Federated stake by 425,000 shares in the six months ended March 31, according to Bloomberg data. Daniel doesn't rate Federated shares.

Fewer Days

Federated has cut the number of days coupons can be used by almost a sixth at the May locations, which previously offered coupons about 256 days a year.

``Does Macy's have the willpower and stamina to withstand the pain?" said Stephen Hoch, marketing professor at the University of Pennsylvania's Wharton School in Philadelphia. ``The pressure of being a publicly traded company is going to make it very hard for them."

Quarterly sales at stores open at least a year at the former May stores fell as much as 11 percent in the year ended in February, said UBS Securities LLC., more than twice the biggest drop of 5 percent a year earlier. Federated won't provide those May figures. Federated's such sales, excluding May, increased as much as 5.9 percent in the latest fiscal year.

Without coupons, former May customers may shop instead at J.C. Penney Co. and Kohl's Corp., where the discounts remain plentiful, according to Hoch and Mary Brett Whitfield, senior vice president at TNS Retail Forward, a Columbus, Ohio-based retail consulting firm. The two companies' sales have outpaced those at the former May locations.

``Hurt the Business"

``By cutting back as hard as we did, we clearly hurt the business," Federated Chief Financial Officer Karen Hoguet said at a Bank of America investors conference March 14 in New York. Hoguet called coupons an ``ugly" way to promote merchandise.

Coupons were born in 1894 when Asa Candler, the druggist who bought the Coca-Cola formula, gave out handwritten tickets for a free soda, according to New York-based Promotion Marketing Association's Coupon Council. In 1895, C.W. Post distributed coupons toward Grape Nuts cereal.

In 2005, 46 percent of U.S. retailers offered them. Today, 80 percent of Americans use coupons, saving \$3 billion a year, the Coupon Council says. Federated's coupons are typically issued via the mail and in newspapers, offering 15 percent off.

``Part of Americana'

``Coupons are really part of Americana," said Matthew Tilley, council co-chairman. ``There is a group of people that is addicted to them."

Federated, which also owns Bloomingdale's, has been trying to reduce coupons for years. From February 2001 through February 2007, the number of days coupons could be redeemed fell almost 25 percent.

Bloomingdale's is ``significantly less promotional" than Macy's, Sluzewski said, without being more specific. Bloomingdale's same-store sales have been among the strongest of Federated's divisions.

``I would think they would want to keep the coupons that bring us in," said Missty Wise, a 43-year-old homemaker in Claremont, California, who shops at former Robinsons-May stores that are now Macy's. ``If it's not broken, don't fix it, because it was working for me."

Wise says she spends \$200 to \$300 every other month at Macy's, one-quarter of what she used to.

Not Alone

Federated isn't alone in trying to wean customers from discounts. Ruby Tuesday Inc., the Maryville, Tennessee-based restaurant chain, and department-store operator Dillard's of Little Rock, Arkansas, have reduced or eliminated coupon use, and sales or net income declined.

Analysts are skeptical that Cincinnati-based Federated will win the coupon tug of war.

``You do one event and you see that bump in sales," said Whitfield of TNS Retail Forward. ``It becomes a self-fulfilling cycle."

Federated will still have coupons, mainly for credit cardholders, who are more profitable because they spend more and pay interest on outstanding balances. Federated deducts the discount from balances.

``We're all rats," said Hoch. ``If you don't get a food pellet, after a few more times you will say,

`Screw it, I'm going somewhere else.'"

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